



## 2016 Audit Plan

# Neath Port Talbot County Borough Council

**Audit year:** 2015-16

**Issued:** March 2016

**Document reference:** 212A2016

# Status of document

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This document was produced by Richard Harries, Jane Holownia, Steve Barry and Gillian Gillett.

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# 2016 Audit Plan

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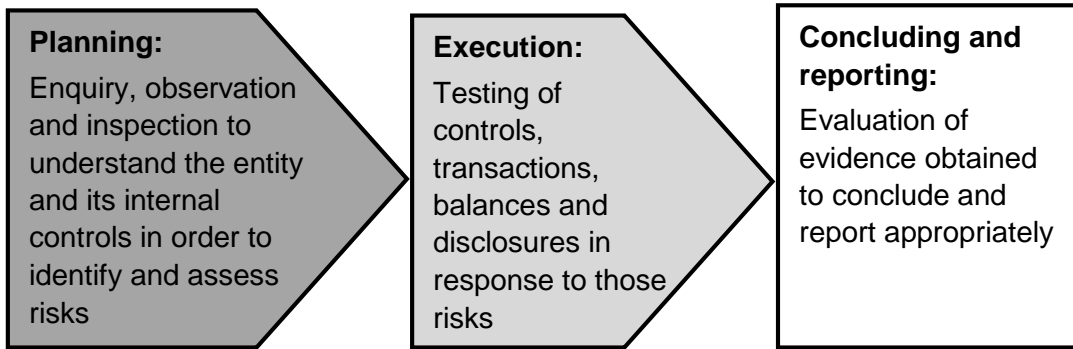
## Summary

1. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are ‘true and fair’;
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
  - audit and assess whether you have discharged duties and met requirements of the Measure; and
  - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
2. The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
3. There have been no limitations imposed on me in planning the scope of this audit.
4. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Financial audit

5. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
6. I also consider whether or not Neath Port Talbot County Borough Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
7. [Appendix 1](#) sets out my responsibilities in full.
8. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

**Exhibit 1: My audit approach**



9. The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them.

**Exhibit 2: Financial audit risks**

Financial audit risk	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.	My audit team will: <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
There is a presumption that there is risk of material misstatement due to fraud in revenue recognition and as such this is treated as a significant risk.	My audit team will: <ul style="list-style-type: none"> <li>• evaluate if there is a risk, and if so, which types of revenue give rise to such risks; and</li> <li>• obtain an understanding of the Council's related controls relevant to such risks and focus testing on the timing and value of revenue where appropriate.</li> </ul>
The Council continues to face significant financial challenges in common with the rest of the public sector. These financial pressures increase the risk of manipulation of balances to achieve the projected year-end position.	My audit team will reflect the Council's financial position in planning the audit and will direct audit testing to the areas of the financial statements which are at greatest risk of reporting bias.

Financial audit risk	Proposed audit response
<p>The Council has changed its Minimum Revenue Provision (MRP) policy for 2015-16.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review the revised policy to ensure that a prudent provision has been made;</li> <li>• test the provision made to ensure it is in accordance with the revised policy; and</li> <li>• review the disclosures made in the accounts to ensure that the impact of the change is fully disclosed.</li> </ul>
<p>A number of issues were identified within the capital accounts in 2015-16. The Council has a number of large capital projects ongoing in 2015-16 and there is a risk that the Statement of Accounts will not reflect all work done up to 31 March 2016 and that the financing of the expenditure will not be correctly accounted for.</p>	<p>My audit team will undertake tests to gain assurance that asset valuations, financing and capital commitments are correctly reflected in the Statement of Accounts.</p>

10. I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
11. For reporting purposes, I will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them.
12. My fees are based on the following assumptions:
  - information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
13. In addition to my responsibilities in respect of the audit of the Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts.

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## Certification of grant claims and returns

14. I have been requested to undertake certification work on the Council's grant claims and returns as set out in [Appendix 2](#).
15. My estimated audit fee for this work is set out in [Exhibit 5](#).

### Overall issues identified

16. [Exhibit 3](#) summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2014-15.

#### Exhibit 3: Overall issues relating to grant claim and return certification

##### Qualified grant claims and returns qualified in 2014-15

Of the 2014-15 grant claims and returns that I certified, I qualified or amended nine (19 per cent of the total). This represents an improvement on prior years (15 in 2013-14). The main issues on which I qualified concerned the lack of, or quality of, supporting evidence, ineligible expenditure and ineffective cut-off procedures.

##### Effectiveness of grant coordination arrangements

I have been reporting for a number of years that grants management arrangements need to be improved and that the weaknesses with the current arrangements result in significantly more audit work (and ultimately audit fees) than should be required. I understand that the Council is now working to improve its arrangements which we will test and report on as part of our 2015-16 audit. We will report this back to the Audit Committee as the work is progressed.

### Issues related to specific grant claims and returns

17. In addition to the overall issues identified above, I summarise the more significant issues I have identified relating to individual grant claims and returns in [Appendix 2](#).

### Other work undertaken

18. I am also responsible for the audit of Margam Joint Crematorium Committee and the independent examination of the Welsh Church Act Trust Fund and the Glamorgan Further Education Trust Fund – Lewis and Aldworth. My team will undertake the audit/independent examination of these accounts on my behalf in accordance with the timescales agreed with the Council and the Charity Commission.
19. My audit fee for this work is set out in [Exhibit 5](#).

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## Performance audit

20. The components of my performance audit work are shown in [Exhibit 4](#) and have been designed in order to help deliver the high-level objectives set out in our 2013-2016 corporate strategy ([www.audit.wales/publication/wales-audit-office-corporate-strategy-2013-2016](http://www.audit.wales/publication/wales-audit-office-corporate-strategy-2013-2016)).

Exhibit 4: Components of my performance audit work



21. Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies will be required to adopt the principle of sustainable development from April 2016, and the draft Local Government (Wales) Bill proposes fewer councils and a renewed performance framework. The Minister for Public Services has publicly stated that he would like to see a refreshed audit regime in advance of the legislative timetable with a view to supporting change. In January this year the minister advised me of a substantial reduction in the grant that subsidises my local government performance audit work under the Measure.
22. However, for 2016-17 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.



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- 23.** In spring 2016 I will be engaging in a consultation with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
- providing assurance on the governance and stewardship of public money and assets;
  - offering insight on the extent to which resources are used wisely in meeting people's needs; and
  - identifying and promoting ways by which the provision of public services may be improved.
- 24.** Taking all these factors into consideration, I am presently unable to be specific about my programme of performance audit work in local government. I am working through the practicalities of designing an appropriate programme of work, and examining the implications of the reduction in grant funding with a view to ensuring, as far as I am able, that there is little adverse impact on local authorities through fees.
- 25.** As soon as practical, I will write to confirm my 2016-17 programme of work.
- 26.** The performance audit projects included in last year's Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 3](#).

## Fee, audit team and timetable

### Fee

- 27.** The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2016 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
- 28.** Your estimated fee for 2016 is set out in [Exhibit 5](#). This figure is the same as last year's fee.

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Exhibit 5: Audit fee

Audit area	Proposed fee (£) <sup>1</sup>	Actual fee last year (£)
<b>Financial audit work</b>	<b>177,000</b>	<b>177,000</b>
<b>Performance audit work</b>	<b>99,000</b>	<b>99,000</b>
<b>Grant certification work<sup>1</sup></b>	<b>62,000</b>	<b>68,000</b>
<b>Other financial audit work</b>		
• Margam Crematorium	3,000	3,000
• Welsh Church Act Trust Fund	2,000	2,000
• Glamorgan Further Education Trust Fund – Lewis and Aldworth	2,000	2,000
<b>Total fee for other audit work</b>	<b>7,000</b>	<b>7,000</b>
<b>Total fee</b>	<b>345,000</b>	<b>351,000</b>

Notes:

<sup>1</sup> Payable as work is undertaken. There are changes to the grants programme for 2015-16 as the Council is one of the pilot sites for the new Welsh Government approach to auditing grants and EU convergence grants finished in 2015.

29. Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Council.
30. Further information on my fee scales and fee setting can be found on the Wales Audit Office website at: [www.audit.wales/about-us/fee-scales-and-fee-setting](http://www.audit.wales/about-us/fee-scales-and-fee-setting).

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<sup>1</sup> The fees shown in this document are exclusive of VAT, which is no longer charged to you.

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## Audit team

31. The main members of my team, together with their contact details, are summarised in [Exhibit 6](#).

### Exhibit 6: My team

Name	Role	Contact number	E-mail address
Richard Harries	Engagement Director/Engagement Lead – Financial Audit	02920 320500	<a href="mailto:richard.harries@audit.wales">richard.harries@audit.wales</a>
Jane Holownia	Engagement Lead – Performance Audit	02920 320500	<a href="mailto:jane.holownia@audit.wales">jane.holownia@audit.wales</a>
Gillian Gillett	Financial Audit Manager	01639 763347	<a href="mailto:gillian.gillett@audit.wales">gillian.gillett@audit.wales</a>
Melvyn Jones	Financial Audit Team Leader	01639 763591	<a href="mailto:melvyn.jones@audit.wales">melvyn.jones@audit.wales</a>
Steve Barry	Performance Audit Manager	07786 190210	<a href="mailto:steve.barry@audit.wales">steve.barry@audit.wales</a>
Samantha Clements	Performance Audit Lead	07879 848672	<a href="mailto:samantha.clements@audit.wales">samantha.clements@audit.wales</a>

32. I can confirm that my team members are all independent of the Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

33. I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 7](#).

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## Exhibit 7: Timetable

Planned output	Work undertaken	Report finalised
<b>2016 Audit Plan</b>	January 2016 to March 2016	March 2016
<b>Financial accounts work:</b> <ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on Financial Statements</li><li>• Financial Accounts Memorandum</li></ul>	February to September 2016	September 2016 September 2016 November 2016
<b>Performance work:</b> I am presently unable to be specific about my programme of performance audit work in local government	April 2016 to March 2017	As soon as practical, I will write to confirm my 2016-17 programme of work
2017 Audit Plan	January to March 2017	March 2017

\* Subject to timely clearance of draft findings with the Council.

## Future developments to my audit work

34. The Well-being of Future Generations (Wales) Act 2015 (the Act) requires me to have undertaken an examination in each of the public bodies specified within the Act and to have provided a report to the National Assembly, by 2020.
35. As referred to in [paragraph 25](#), I will be consulting on my proposed response to the Act in spring 2016. This consultation will feature a commitment to engage and work collaboratively with public bodies in developing an audit approach which is rigorous, meaningful and proportionate. I propose using 2016-17 as a transition year during which my teams work with a limited number of public bodies to develop and test my approach.
36. As we confirm our audit approaches and respond to continuing consultation from the Welsh Government, we will be talking to audited bodies about the implications for their fees from 2017-18 onwards and will be exploring alternative funding models with the next National Assembly's Finance Committee.

# Appendix 1

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## Respective responsibilities

### Financial audit

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- Their 'truth and fairness', providing assurance that they:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with the statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
- The consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether Neath Port Talbot County Borough Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

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My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the Council from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

## Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

## Appendix 2

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### Summary of grant claim certification work

Name of scheme	Period of scheme	Value of claim 2014-15	Issues identified in 2014-15
Housing Benefits Subsidy	2014-15	£53,772,785	Claim qualified and amended: <ul style="list-style-type: none"><li>• administration and interim subsidy could not be agreed to DWP letter of 17/3/2015; and</li><li>• errors were identified in the calculation of the earned income figures used to assess housing benefit entitlement.</li></ul>
Transitional SBIG (21st Century Schools)	2014-15	£6,595,000	
Flying Start	2014-15	£3,576,654	
Families First	2014-15	£2,223,844	Claim amended: <ul style="list-style-type: none"><li>• expenditure claimed was overstated by £57,000; and</li><li>• third party grant of £11,890 had not been spent and was removed from the claim.</li></ul>
Substance Misuse Action Fund	2014-15	£3,616,470	
National Domestic Rates Return	2014-15	£40,091,745	
Sustainable Waste Management	2014-15	£2,789,554	
Teachers' Pension Return	2014-15	£10,930,906	

Name of scheme	Period of scheme	Value of claim 2014-15	Issues identified in 2014-15
Communities First – New Programme (3 claims)	2014-15	£1,854,739	Claim qualified and amended: <ul style="list-style-type: none"> <li>• third party expenditure was not adequately supported; and</li> <li>• claims included costs which related to 2015-16 expenditure transactions.</li> </ul>
Social Care Workforce Development Programme	2014-15	£404,637	
Motorway and Trunk Road Maintenance and Improvement (40 claims)	2014-15	£50,132,017	
Local Transport Grant	2014-15	£1,550,000	Claim amended: <ul style="list-style-type: none"> <li>• claim did not agree to the accounting records.</li> </ul>
Free Concessionary Fares	2014-15	£2,981,203	Claim amended: <ul style="list-style-type: none"> <li>• annual claim did not agree to submitted quarterly claims and the grant received was misstated on the claim form.</li> </ul>
European Convergence Grant – Regeneration	2007-2015	£1,364,699	Claim qualified: <ul style="list-style-type: none"> <li>• gross expenditure and internal charges were miscalculated.</li> </ul>
European Convergence Grant – Harbour Way	2007-2015	£3,450,836	Claim qualified: <ul style="list-style-type: none"> <li>• evidence of approval of a contract variation was not provided.</li> </ul>



## Appendix 3

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### Performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
Review of welfare reform advice and information services being delivered by the third sector	In progress	Report scheduled for May 2016

# Appendix 4

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## National value-for-money studies

The Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are funded by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

The table below covers all of the value-for-money studies work currently programmed. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Topic	Anticipated publication timeframe
Welsh Government acquisition and ownership of Cardiff Airport	Late January 2016
The development of Natural Resources Wales	Early February 2016
Operating theatres	February 2016
Impact of private practice on NHS provision	February 2016
Wales Life Sciences Investment Fund	March 2016
Welsh Government responses to audit recommendations (memorandum for the Public Accounts Committee)	Spring 2016
Coastal flood and erosion risk management	Spring 2016
Rail services	Spring 2016
Governance of the National Library of Wales	Spring 2016
Welsh Government oversight of further education institutions' finances and delivery	Autumn 2016
Public procurement (including development of the National Procurement Service)	Winter 2016

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Topic	Anticipated publication timeframe
Early intervention and behaviour change	Spring/summer 2017 <sup>2</sup>
Welsh Government interventions in local government	TBC <sup>3</sup>

I have been considering over recent months the inclusion in my programme of a number of new studies on:

- The NHS Wales Informatics Service
- Capital investment in schools (21st Century schools programme) and school places
- Further education finances
- Waste management
- The Supporting People programme
- Access to public services for people whose first language may not be English or Welsh and those who may be disadvantaged without access to specialist interpretation services

With the exception of the further education study, referred to in the table above, firm plans for these new studies are yet to be confirmed, although initial scoping work is underway.

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<sup>2</sup> My programme of good practice work includes a project that will aim to explore the range of behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. The project will include a range of engagement events and the development of a community of practice to share learning and experience. I anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and it would not be prepared until the first half of 2017.

<sup>3</sup> Plans for this work have been under review in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales, and also to consider the implications for the work of plans for local government reform.

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)